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No. 83-221

IN THE

Supreme Court of the United States

OCTOBER TERM, 1983

CELINA B. MESTRE, Personal Representative of the Estate of Luis Mestre, deceased,

Petitioner,

v.

PITNEY BOWES, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE ELEVENTH CIRCUIT

PETITIONER'S REPLY BRIEF

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INTRODUCTORY STATEMENT

This brief is submitted on behalf of Petitioner[1] in reply to Respondent Pitney Bowes' Brief in Opposition ("Resp. Br.") to the Petition for a Writ of Certiorari (the "Petition").

Pitney Bowes does not contend that the questions raised in the Petition are unworthy of this Court's consideration but rather argues that, on the merits, the decision of the Eleventh Circuit should be affirmed (Resp. Br. 10, 15). Thus, Pitney Bowes asserts:

1 Petitioner is also referred to as Mestre.

1. This Court has already ruled on the merits of the question concerning hybrid agreements and has held that trade secret rights do not survive the expiration of subsequently issued patents licensed in the same agreement (*id.* at 11), *i.e.*, the merger of trade secrets into patents ("merger").

2. Petitioner failed to raise the question of the injunction against arbitration in its Notice of Appeal and, in any event, no claims herein are arbitrable because all are governed by federal policy. (*Id.* at 15, 19-20)

As will be demonstrated below, (i) the merger issue has not been decided by this Court, and (ii) the Notice of Appeal conferred jurisdiction on the Eleventh Circuit to vacate the injunction against arbitration.

I.

THE MERGER ISSUE HAS NOT BEEN DECIDED BY THIS COURT

Pitney Bowes recognizes that the agreements herein (i) were hybrid licenses of both trade secrets and subsequently issued patents (*id.* at 4, 6), and (ii) provided for payment for trade secrets after the expiration of the patents (*id.* at i). However, Pitney Bowes' various references to "royalties" (*id.*, *passim*) obscure the terms of the agreements relating to trade secrets thereby suggesting that Mestre is attempting to extend the life of the patents.

Mestre has never contended that the agreements provided for payment of patent royalties after the expiration of the patents and has always recognized that a patent cannot be extended beyond seventeen years. The single simple question (raised in the Petition as Question 1) has always been whether or not as a matter of federal patent law Mestre's trade secrets were merged into subsequently issued patents.

Pitney Bowes contends that the absence of allocation prior to, during, and after the patents as a matter of federal patent

law resulted in a merger. (*Id.* at i, 10-15) However, the fact that the agreements called for unaltered payments throughout is but a reflection of the bargain.[2]

Although Pitney Bowes suggests that this Court's decisions in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), and in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), together stand for merger, this constitutes a misreading of these cases as well as a failure to give effect to the full scope of this Court's decision in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 491-93 (1974).

In *Brulotte*, this Court held that certain use licenses restricting licensees' use, sale and removal of hop-picking machines expired as a matter of law with the patents thereon. 379 U.S. at 32. Pitney Bowes argues in effect that trade secret licenses are comparable to use licenses and, therefore, should expire with the patents. (Resp. Br. 6-7) The fallacy of this argument is that Mestre's trade secrets are independent of the patents and expedite the process of manufacturing the machines. In contrast, the use licenses of the machines in *Brulotte* had nothing to do with the manufacturing process.[3]

While recognizing the commonality of the facts in *Aronson* to those involved herein (Resp. Br. 11), Pitney Bowes incorrectly attempts to extrapolate out of dictum in *Aronson* an argument in favor of merger. Pitney Bowes does this by

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2 *Timely Products, Inc. v. Costanzo*, 465 F. Supp. 91 (D. Conn. 1979), referred to by Pitney Bowes (Resp. Br. 15), is inapposite because it invalidated a provision eliminating the incentive to challenge a patent's validity.

3 Although Pitney Bowes cites four cases in support of its claim that lower court decisions subsequent to *Brulotte* "have rejected any device to extend patent royalty payments beyond expiration of patents" (Resp. Br. 11n), none of these cases involved agreements licensing both trade secrets and subsequently issued patents.

assuming that "[i]f the patent [in *Aronson*] had issued, there would have been two possibilities: (i) a 5% royalty for the seventeen-year patent term and no subsequent royalty at all, or (ii) a 5% royalty for the patent term followed by a 2-1/2% continuing royalty for use of the trade secrets." (Resp. Br. 14n) Pitney Bowes then gratuitously observes that, "[i]f the Court had contemplated the latter, that 'course' would *always* produce a greater yield than a 2-1/2% royalty if no patent issued." (*Id.*) (emphasis in original)

It is clearly conjectural whether a 2-1/2% perpetual trade secret royalty would exceed a 5% royalty for the life of a patent. The amount of royalties would depend on a number of factors, including the number of keyholders sold during the seventeen-year period as contrasted with those sold in perpetuity.

Thus, there is no basis for Pitney Bowes to claim that if *Aronson* had involved hybrid agreements, "all royalty obligations would have ceased upon expiration of the patent." (Resp. Br. 13) In point of fact *Aronson* did not decide in favor of merger and, indeed, noted that the 2-1/2% trade secret royalty was "explicitly independent of federal law." 440 U.S. at 262.

Because this Court has not decided whether trade secret rights in a hybrid agreement survive the expiration of the patents, the Petition as to Question 1 should be granted.

II.

THE NOTICE OF APPEAL CONFERRED JURISDICTION ON THE ELEVENTH CIRCUIT TO VACATE THE INJUNCTION AGAINST ARBITRATION

Pitney Bowes erroneously contends that (i) Petitioner's Notice of Appeal (the "Notice") does not raise the injunction against arbitration (Resp. Br. 15-19) and (ii) even if the Notice were adequate, arbitration is inappropriate because resolution of the dispute is governed by federal policy (*id.* at 19).

As set forth below, the Notice was adequate and the dispute, involving state law, should be referred to arbitration.

A. The Notice Was Adequate to Confer Jurisdiction

Pitney Bowes never argues—nor could it—that it suffered or would suffer any prejudice if the Notice were construed to raise the issue of the injunction against arbitration. Since filing the demand for arbitration Mestre has consistently maintained that, in accordance with the terms of the agreements, disputes concerning compensation for use of trade secrets are arbitrable. Pitney Bowes extensively briefed the issue of arbitrability in both the district court and in the Eleventh Circuit. Thus, not only is there no prejudice to Pitney Bowes, but, in addition, Mestre obviously intended to appeal the injunction and return to arbitration.[4]

Pitney Bowes erroneously asserts that under the "law uniformly applied by the other Circuits" (*id.* at 17) it was entitled to a dismissal of the appeal on the injunction issue. To the contrary, as this Court recognized in *Foman v. Davis*, 371 U.S. 178, 181 (1962), the touchstone of the inquiry is whether the party objecting to the notice is prejudiced by a liberal construc-

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4 The cases cited by Pitney Bowes (Resp. Br. 17-18) are inapposite because they concern prejudice to appellees or issues abandoned by appellants.

tion thereof. *Accord, St. Joseph Light & Power Co. v. Zurich Insurance Co.*, 698 F.2d 1351, 1360 (8th Cir. 1983); *Munoz v. Small Business Administration*, 644 F.2d 1361, 1364 (9th Cir. 1981); *United States v. Leonard*, 639 F.2d 101, 106 (2d Cir. 1981). *See also New England Mutual Life Insurance Co. v. Null*, 554 F.2d 896, 903 n.4 (8th Cir. 1977).

However, it is unnecessary to look beyond the specific language of the Notice to find Mestre's appeal from the injunction. Pitney Bowes filed its action to enjoin the arbitration which Mestre had initiated. If Mestre's motion for summary judgment had been granted, Pitney Bowes' complaint would have been dismissed, leaving Mestre's demand for arbitration undisturbed. The district court denied Mestre's motion, thereby depriving Mestre of arbitration, and the Notice specifically referred to the denial of the motion for summary judgment.

It is, therefore, misleading to suggest (as in Resp. Br. 17n) that the appeal from the denial of Mestre's motion did not raise the injunction issue.

B. Arbitration of the Dispute Is Proper

As explained in the Petition (at 11 n.6), no matter how Question 1 is resolved, all remaining issues would involve only New York law. Obviously, if there is no merger, federal policy does not prevent enforcement of reversionary interests in trade secrets after expiration of the patents. But even if there were merger, no court so far as Petitioner is aware has held that reversionary interests would be extinguished by federal patent law.[5]

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5 Pitney Bowes asserts that Mestre "does not explain why the arbitration clause should apply to a question [reversionary rights] that would only arise after the agreements have expired." (Resp. Br. 21n) Mestre has contended throughout that the agreements provided for Mestre's reversionary interests in the trade secrets and, accordingly, any dispute relating thereto is arbitrable. *See, e.g., Cincinnati Gas & Electric Co. v. Shaw Co.*, 706 F.2d 155, 160 (6th Cir. 1983).

Pitney Bowes seeks to distinguish Petitioner's cases requiring arbitration of state law issues on the ground that in those decisions federal and state claims were "*separately-pleaded*". (Resp. Br. 22) (emphasis in original) Such a distinction is incomprehensible because the complaint herein was drafted by Pitney Bowes—without Petitioner's assistance—and certainly Pitney Bowes' pleadings, no matter how artfully drafted, cannot extinguish Petitioner's right to arbitrate state law issues.

The conflict in the Circuits with respect to arbitration of state law issues in cases involving separate federal and state questions is obviously germane to this Petition. Moreover, Pitney Bowes agrees with the Petition that the Circuits are in conflict with respect to the role of arbitration in such cases. (Resp. Br. 22-23) Pitney Bowes, by not taking exception, apparently also agrees with the Petition that decisions of this Court favor enforcement of arbitration clauses.

The Petition as to Question 2 should be granted because the Notice sought review of the district court's refusal to permit arbitration of state law issues.

CONCLUSION

For the reasons stated herein and in the Petition, a writ of certiorari should issue to the United States Court of Appeals for the Eleventh Circuit.

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Respectfully submitted,

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